

Middle East converters must become more global in business

BY GEORGE A. HANNA

In the last three decades, the flexible packaging sector has made significant contributions to the welfare of many markets and communities in the Middle East. As a result, the industry has flourished and grown. Entering the new millennium, however, major challenges face this industry. Plus, the difficult and at times peculiar business environment of the region will create challenges for a dynamic and sustained local industry.

Since the 1990's, the converting industry generally has thought and acted globally, with many companies in Europe and North America restructuring and consolidating operations in response to a more globalized customer base. Mergers involving such majors as Crown Cork and Pechiney, British Polythene, Cryovac, Airseal, and Tenneco and KNP have changed the face of converting.

Similar activity should accelerate in the Middle East in coming years. Reasons include:

- The need to globalize business and follow international customers around the world. These customers are constantly reducing their suppliers and relying on truly global vendors to share product-development costs. This will be an extremely difficult strategy for many Middle East converters to achieve unless they themselves become global.

- Being a corporation with diverse businesses is not economical. Converters need to be focused on their business and specialize to keep pace with ever-changing developments in materials and processing technology. Middle East converters generally lack specialization and most operate many processes under the same roof.

- The petrochemical industry is shifting its investments from the Western hemisphere to the Middle East and Far East. Firms such as Sabic, Qapco, and Equate have proven to be successful models for this region with its indigenous oil base. Moreover, it is with the help of petrochemical firms that the local converting industry has flourished during the past 15 years.

In addition, many local governments will open their economies to be part of



the World Trade Organization. Hence, trade barriers will be dismantled with major consequences for our industry. It is thus proper to ask: Will Middle East converters be able to make products to international standards? Are converters equipped to be competitive?

The structure of the Middle East flexible packaging industry is fragmented and regionalized. The industry comprises an excessive number of firms, estimated at more than 700 converters in the Gulf region alone. For most products, the supply base is much higher than the demand and, there-

fore, margins are becoming alarmingly low.

Converters are being squeezed between their raw materials suppliers and their customers, both of which are increasingly large economy-of-scale operations. Apart from some large converters, there are many small packaging converters in the region. Their operations tend to fall within a limited geographic area and output is restricted to a few technically unsophisticated products. Family ownership is still dominant, with many decisions centered on a single person, limiting the possibility of growth and the need to consolidate the industry for the challenges of the new millennium.

The Middle East, especially the Gulf states, accepted virtually any product at any price during the economic boom of the 1980's. However, markets - and business - have changed. There is an increase in smaller orders, just-in-time delivery, and frequent changes of product design; all amidst a more competitive pricing scene.

As we enter the new millennium, the packaging industry in the Middle East will be exposed to significant global and regional influences. What has served us well in the past is no longer sufficient. Many of our traditional markets will require specialization and focus. Global converters are more efficient and can truly outstrip our capabilities. Therefore, a consolidation of our regional industry to create the critical mass needed in a

global economy is required. This consolidation cannot happen, however, unless the single-family owner starts to institutionalize his company.

Looking at the future through experts' eyes

The plastics industry stands on the brink of a new century and a new millennium. Considering the extraordinary progress that plastics has made in the last 100 years, it's a natural and intriguing exercise to project what the next 100 may bring.

It can also be an exercise in futility, one that seems virtually impossible to do with any degree of certainty. Predictions are inherently risky under the best of circumstances. And with technology moving and changing life as rapidly as it does, predictions about plastics and how the industry will fare that extend beyond the next 5 to 10 years could easily become science fiction.

Nevertheless, looking ahead is as much a part of human nature at momentous points in time like this as is reflecting on the past. So we asked industry experts from around the world to share with our readers their outlook for the future of plastics. To keep everything in perspective, though, we requested that they look no farther ahead than 10 or at most 20 years. The mandate was definitely to think boldly, but at the same time be realistic and provide an outlook that not only informs, but can be used to help develop business in the near term.

The results are outstanding. Our essayists have provided a vision of a viable and dynamic industry that will con-

tinue to grow, innovate, prosper, and influence the quality of life for many years to come. There will be nothing stagnant about plastics in the 21st century.

The essays cover diverse subjects: some view the future through the evolution of current issues and business trends; others address emerging markets – including those created within societies by shifting demographics – and the impact these will have on the industry. A few consider the environment and biotechnology. All carry the message that while the future will be challenging, it's hardly a strange land. The plastics industry will definitely think and act differently to be competitive and profitable in coming years, but there's nothing new there; that's been happening since John Wesley Hyatt developed celluloid in 1869 and then had to figure out what to do with it.

A new year is a great point in time. Everyone is positive and flushed with enthusiasm for the next 365 days. Especially so this time, as we bid the 1900s adieu. There are, as these essays state, many challenges and opportunities confronting the industry in the future. But we as an industry

have an outstanding record of achievement at our backs, and unlimited opportunities facing us. This new year, the future truly looks good. Here's to it. –P.A.T.

